



# COMPANY UPDATE

DR. KALLIWODA EQUITY RESEARCH

August, 10, 2004



**VALOR COMPUTERIZED SYSTEMS**  
Software / Technology

**Rating: Unchanged BUY**

Last price: € 2,30  
Fair value: € 4,35

## VALOR going ahead in attractive Markets

- Strong Sales-Growth in Q2 2004
- High R&D-Costs; Products TraceXpert and Trilogy convince
- Valor developing to an One Stop Shop-Provider

### COMPANY DESCRIPTION

VALOR COMPUTERIZED SYSTEMS is the leader in integrated engineering software solutions throughout the design-through-manufacturing electronics supply chain. The company's powerful software tools, based on ODB++ ensure the rapid transfer of optimized data from the design through manufacturing stages. All Valor-products are sold and supported by a worldwide network that includes global subsidiary offices.

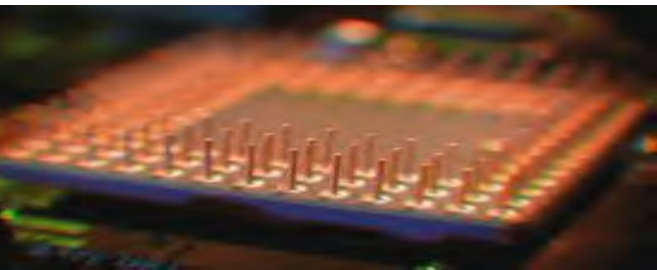


Source: Deutsche Börse AG; VALOR COMPUTERIZED SYSTEMS

Figures in EUR	2002	2003	2004e	2005e	2006e
EPS Dr. Kalliwoda	-0,04	0,11	0,14	0,20	0,22
EPS Consensus	-0,04	0,11	0,13	0,23	0,26
Revenues (mln)	23,0	25,6	30,5	34,2	37,0
net Income (adj.)	-0,8	1,9	2,6	3,6	4,1
net cash per share	1,8	1,7	1,8	1,8	1,8
net Cash	32,7	30,7	32,9	32,0	32,0
Free Cash Flow	3,3	9,4	0,6	0,1	0,1
P/E	-	21,5	15,8	11,4	10,1
P/S	-	1,6	1,3	1,2	1,1
Price (curr)	2,25				
52W high	4,35				
52w low	2,1				
Market Cap (mln)	41,1				
ROE curr	n.m.				
Sales CAGR 00-05	8%				
Web Page		www.valor.com			
Shares out (mln)				18,25	
6M Avrg Vol (000s)				12,7	
Free Float (in %)				39,2%	
Weight in TecDaxPrimeStandard				0,005%	
Reuters code				VCR	
Bloomberg				VCR	
WKN				928731	

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Source: DR.KALLIWODA | RESEARCH



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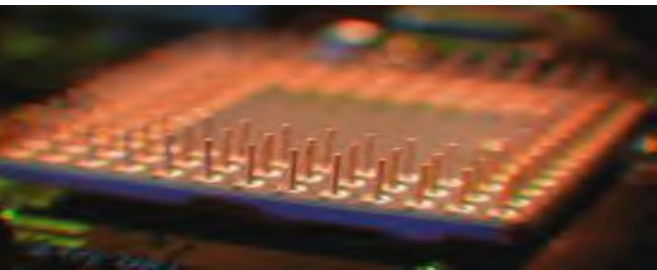
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## 1. EXECUTIVE SUMMARY

Valor Computerized System [ prime standard: VCR, WKN 928 731], is one of the prominent providers of productivity-increasing software solutions for the electronic industry. Valor Computerized Systems' Q2/2004 results, when compared to Q2/2003, increased in total sales by 18%. In Q2/2004 Valor generated total sales of close to \$ 7,5 Mio. matching the company's quarterly sales record as compared to \$ 6,3 Mio. for Q2/2003.

On the basis of Valor's intelligent software solutions, in particular the Trilogy 5000-Solution and the TraceXpert platform with growing acceptance by customers and experts, we estimate rising sales in the second half-year.

According to our opinion published in our company report from 17 May 2004, Valor should reach sales of \$ 30.5 Mio. for 2004. In the third and fourth quarter Valor is traditionally stronger, so that our sales estimates appear defensive.

However we increase the estimation of the research- and development costs as well as the marketing costs and reduce our profit estimation to \$ 0.12 for 2004. We maintain all other determinants in our Three-Stage-Discount cashflow model and obtain a fair value of € 4,35 per share in relation to a target price of € 4,80 in our basic study.

We recommend the share invariably to buy with a target price of € 4,35 on a view of 12 months. The following tables show the results of our sensitivity analyses:

**SENSITIVITY ANALYSIS per Share**

	(EUR)	Discount factor				
	$\beta = 1$	0,07	0,08	0,09	0,10	0,11
	0,0%	5,09	4,49	4,04	3,69	3,42
CAGR of revenues in terminal phase	0,5%	5,29	4,62	4,13	3,76	<b>3,47</b>
	1,0%	5,52	4,77	4,23	<b>3,83</b>	3,53
	1,5%	5,80	4,95	<b>4,35</b>	3,92	3,58
	2,0%	6,13	<b>5,16</b>	4,49	4,01	3,65
	2,5%	<b>6,55</b>	5,40	4,65	4,11	3,72

Source: Dr. Kalliwoda Research

**SENSITIVITY ANALYSIS (Market-Capitalization)**

	(Mio. EUR)	Discount factor				
	$\beta = 1$	6,7%	7,7%	8,7%	9,7%	10,7%
	0,0%	92	81	73	67	62
CAGR of revenues in terminal phase	0,5%	95	83	75	68	<b>63</b>
	1,0%	100	86	76	<b>69</b>	64
	1,5%	105	89	<b>79</b>	71	65
	2,0%	111	<b>93</b>	81	72	66
	2,5%	<b>118</b>	98	84	74	67

Source: Dr. Kalliwoda Research

With a carefully estimated long-term growth rate of 1,5% and a discount rate of 9%, our sensitivity analysis shows a share quotation of € 4,35 (left table) and a market capitalization of € 79 Mio. (right table).

## 2. SUCESSFUL 2. QUARTER 2004

In the second quarter 2004 as well as in the first half year 2004 Valor clearly increased sales and thereby gained a positive result. The following table shows the Q2/2004 results in comparison to Q1/2004 as well as Q1/2004 in comparison to Q1/2003:

VALOR Q2/2004 Figures in Mio. \$						
	Q2 2004	Change to Q2 2003	Q2 2003	Q1 2004	Change to Q1 2003	Q1 2003
<b>Revenues</b>						
Product Sales and Related Services	4,77	19,44%	4,00	4,61	19,73%	3,85
Maintenance	2,68	15,57%	2,32	2,54	10,91%	2,29
<b>Total Revenues</b>	<b>7,45</b>	<b>18%</b>	<b>6,31</b>	<b>7,15</b>	<b>16%</b>	<b>6,14</b>
<b>Cost of Revenues</b>						
Product Sales	0,84	322,61%	0,20	0,28	-2,41%	0,29
Maintenance	0,16	26,83%	0,12	0,20	28,10%	0,15
<b>Total Costs of Revenues</b>	<b>1,00</b>	<b>210%</b>	<b>0,32</b>	<b>0,48</b>	<b>8,13%</b>	<b>0,44</b>
<b>Gross Profit</b>	<b>6,46</b>	<b>8%</b>	<b>5,99</b>	<b>6,67</b>	<b>17,09%</b>	<b>5,70</b>
Research and Development Costs	2,46	31,25%	1,88	2,66	59,64%	1,67
Selling and Marketing Expenses	3,45	9,97%	3,14	3,34	9,63%	3,04
General and Administrative Expenses	0,43	14,13%	0,38	0,57	29,38%	0,44
<b>Total Operating Costs and Expenses</b>	<b>6,34</b>	<b>17,67%</b>	<b>5,39</b>	<b>6,56</b>	<b>27%</b>	<b>5,15</b>
Impairment (loss) earnings	0,00	-100,00%	-0,01			
Profit from Operations	0,11	-80,94%	0,60	0,11	-79,75%	0,55
Financial Income, net	0,22	-31,06%	0,32	0,24	4,80%	0,23
<b>Profit before Taxes on Income</b>	<b>0,34</b>	<b>-63,48%</b>	<b>0,92</b>	<b>0,35</b>	<b>-54,99%</b>	<b>0,78</b>
Taxes on Income	0,04	-77,27%	0,15	0,06	-64,15%	0,16
<b>Profit before Income Tax due to Dividend Distribution</b>	<b>0,30</b>	<b>-60,70%</b>	<b>0,77</b>	<b>0,30</b>	<b>-52,65%</b>	<b>0,62</b>
Income Tax due to Dividend Distribution	0,00	-100,00%	-1,31			
<b>Net Profit Loss</b>	<b>0,30</b>		<b>-0,54</b>	<b>0,30</b>	<b>-52,65%</b>	<b>0,62</b>
Basic Earnings (Losses) per Share	0,02	-166,67%	-0,03	0,02	-33,33%	0,03
Diluted Earnings (Losses) per Share	0,01	-133,33%	-0,03	0,01	-66,67%	0,03
Weighted Av. No. Of Shares Basic Earnings	18,26	0,99%	18,08	18,15	0,41%	18,08
Weighted Av. No. Of Shares Diluted Earnings	20,60	13,95%	18,08	19,96	8,51%	18,40

Source: DR. KALLIWODA | RESEARCH

Sales in Q2/2004 rose in relation to the period last year by 18 % to nearly \$ 7.5 Mio. This quarter proceeds on record level. In the entire first half-year Valor Computerized Systems obtained \$ 14.6 million which is an increase of 17,3 % in comparison to the previous year period.

In Q2/2004 a net profit by \$ 0.301 millions was obtained. That corresponds to a profit for each share of 0,02 US dollar. For the same quarter in the previous year Valor achieved a net loss of \$ 0.539 millions after having paid a dividend. This led to a loss of \$ 0.03 per share.



Valor generated in the second quarter 2004 a positive operational net cash-flow with \$ 0.958 Mio. In the first half-year 2004 the operative net cash-flow amounts to \$ 2.2 Mio. Valor further expanded its competitive edge in its targeted niche markets through technological advantages and continues to optimize its existing product solutions.

Therefore the expenditures for Research & Development have risen in Q2/2004 (according to plan) in relation to previous year quarterly results clearly by around 31 % to \$ 2.46 Mio. Valor does not put large value on maximization of their short term profit. A long-term creation of value is the aim of Valor's business, which is to be obtained by an expansion of the market share and leadership in the technology through their highly specialized product portfolio.

Therefore the expenditures for sales & marketing rose in the first half-year 2004 in relation to the period last year by 10 per cent to \$ 6.79 Mio. By the regular increase of the Research & Development activities EBIT decreased from \$ 0.598 millions in the first 6 months of 2003 to \$ 0.114 Mio. in first 6 months/2004.

## 2.1 DEVELOPMENT OF BALANCE SHEET

VALOR First Half/2004 CONSOLIDATED BALANCE SHEETS in MIO \$				
	JUNE 30	Change	JUNE 30	DECEM 31
	2004	to June 2003	2003	2003
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	7,19	67,48%	4,29	7,65
Short-term deposits	23,05	107,31%	11,12	22,66
Marketable securities	0,43		0,00	0,48
Trade receivables, net	4,51	29,74%	3,47	4,61
Jointly controlled entity	1,83	-18,83%	2,26	1,80
Other current assets	1,51	47,47%	1,03	1,37
<b>Total current assets</b>	<b>38,52</b>	<b>74%</b>	<b>22,17</b>	<b>38,58</b>
<b>PROPERTY AND EQUIPMENT, NET</b>				
	1,83	-11%	2,05	1,79
<b>LONG-TERM DEPOSITS</b>				
	0,00	-100,00%	19,84	0,00
<b>DEFERRED TAX ASSETS</b>				
	0,62	50,36%	0,41	0,62
<b>INTANGIBLE ASSETS, NET</b>				
	0,12	-66,67%	0,35	0,27
<b>TOTAL ASSETS ATTRIBUTED TO DISCONTINUED OP.</b>				
	0,00	-100,00%	0,03	0,00
<b>TOTAL ASSETS</b>	<b>41,08</b>	<b>-8%</b>	<b>44,84</b>	<b>41,26</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES:</b>				
Trade payables	0,56	5,48%	0,53	0,43
Employees and payroll accruals	1,52	45,25%	1,04	1,59
Deferred Revenues	3,71	37,55%	2,70	2,30
Accrued dividend	0,00	-100,00%	5,28	0,00
Other current liabilities	1,09	4,00%	1,05	0,94
<b>Total current liabilitytät</b>	<b>6,88</b>	<b>-35,16%</b>	<b>10,60</b>	<b>5,26</b>
<b>ACCRUED SEVERANCE PAY, NET</b>				
	0,59		0,50	0,56
<b>Total Equity</b>	<b>33,62</b>	<b>-0,45%</b>	<b>33,77</b>	<b>35,43</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>41,08</b>	<b>-8%</b>	<b>44,84</b>	<b>41,26</b>

Source: VALOR COMPUTERIZED SYSTEMS

In the balance sheets the regroupings of funds from long-term to short-term positions is obvious. On the basis of our interviews with the management we assume that Valor would like to supplement their Product-portfolio by the purchase of suitable enterprises. In the fragmented market for printed circuit board assembly and production-control smaller companies exist, which are not accepted by the larger players in the electronics industry due to their insufficient size. Nevertheless they have interesting product solution components which could have an added value for Valor's creation of the electronics value chain. A purchase of such companies would be strategically meaningful for Valor Computerized Systems.

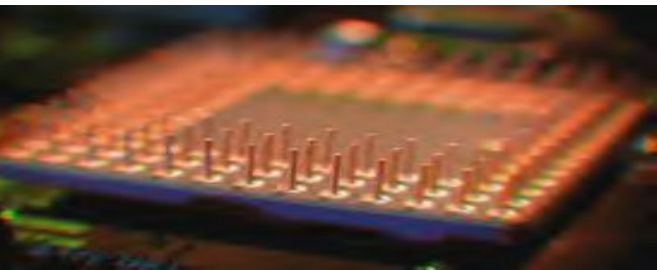


## 2.2 PROFIT AND LOSS-ACCOUNTING

The following table shows the profit and loss calculation. It shows a net profit of \$ 2.6 Mio. for the financial year 2004 and of \$ 3.6 Mio. for 2005.

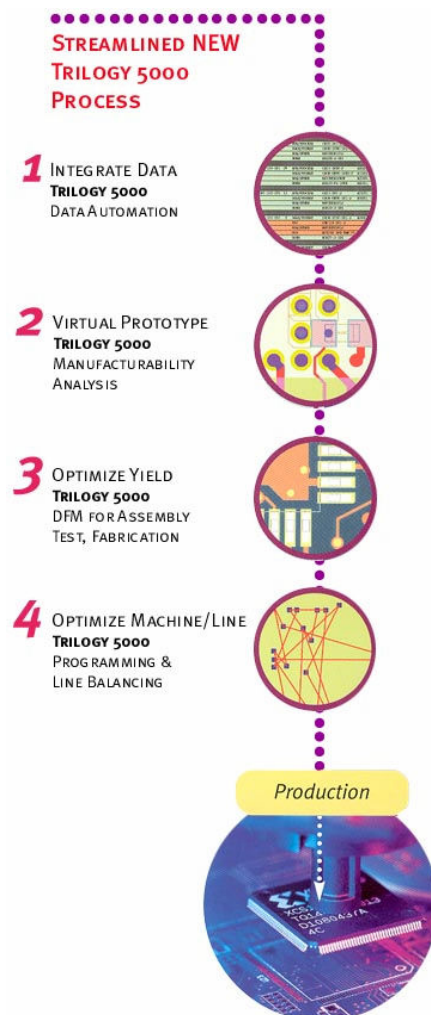
PROFIT & LOSS VALOR COMPUTERIZED SYSTEMS AG								
\$ mln								
	1999	2000	2001	2002	2003	2004e	2005e	CAGR 00-05
<b>Revenues</b>	<b>25,1</b>	<b>29,3</b>	<b>24,9</b>	<b>23,0</b>	<b>25,6</b>	<b>30,5</b>	<b>34,2</b>	<b>8,1%</b>
% change		16,9%	-15,1%	-7,4%	11,2%	19,1%	12,1%	
<b>COGS</b>	<b>-4,3</b>	<b>-3,6</b>	<b>-3,3</b>	<b>-2,3</b>	<b>-1,7</b>	<b>-2,2</b>	<b>-2,8</b>	
% of revenues	17%	12%	13%	10%	7%	2%	3%	
<b>Gross income</b>	<b>20,7</b>	<b>25,7</b>	<b>21,6</b>	<b>20,7</b>	<b>23,9</b>	<b>28,3</b>	<b>31,4</b>	<b>8%</b>
% change		23,8%	-16,0%	-4,0%	15,6%	18,2%	11,0%	
<b>Gross margin</b>	<b>83%</b>	<b>88%</b>	<b>87%</b>	<b>90%</b>	<b>93%</b>	<b>93%</b>	<b>92%</b>	
<b>R &amp; D</b>	<b>-3,5</b>	<b>-6,9</b>	<b>-10,5</b>	<b>-8,5</b>	<b>-9,1</b>	<b>-11,0</b>	<b>-11,0</b>	
% of revenues	14%	23%	42%	37%	35%	-36%	-31%	
<b>S, S&amp;A (Distr./Mark.)</b>	<b>-12,9</b>	<b>-15,9</b>	<b>-16,5</b>	<b>-13,0</b>	<b>-12,4</b>	<b>-14,3</b>	<b>-16,0</b>	
% of revenues	52%	54%	66%	56%	49%	-47%	-45%	
<b>Other op. Income</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>-0,4</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	
<b>EBITDA</b>	<b>4,3</b>	<b>2,9</b>	<b>-5,4</b>	<b>-1,4</b>	<b>2,4</b>	<b>3,0</b>	<b>4,4</b>	
% of revenues	17%	10%	-22%	-6%	9%	10%	13%	
<b>EBITDA margin</b>	<b>17%</b>	<b>10%</b>	<b>-22%</b>	<b>-6%</b>	<b>9%</b>	<b>3%</b>	<b>4%</b>	
<b>EBIT</b>	<b>4,3</b>	<b>2,9</b>	<b>-5,4</b>	<b>-1,4</b>	<b>2,4</b>	<b>3,0</b>	<b>4,4</b>	
% of revenues	17%	10%	-22%	-6%	9%	10%	13%	
<b>EBIT margin</b>	<b>17%</b>	<b>10%</b>	<b>-22%</b>	<b>-6%</b>	<b>9%</b>	<b>3%</b>	<b>4%</b>	
<b>Financial result</b>	<b>1,3</b>	<b>-0,4</b>	<b>2,1</b>	<b>0,7</b>	<b>1,2</b>	<b>0,6</b>	<b>0,6</b>	
<b>Pre tax income</b>	<b>5,6</b>	<b>2,5</b>	<b>-3,3</b>	<b>-0,8</b>	<b>3,6</b>	<b>3,6</b>	<b>5,0</b>	
% of revenues	22,4%	8,5%	-13,2%	-3,3%	14,2%	11,7%	14,6%	
<b>Taxes</b>	<b>-0,2</b>	<b>0,2</b>	<b>0,0</b>	<b>0,0</b>	<b>-1,7</b>	<b>-1,0</b>	<b>-1,4</b>	
Tax rate	3,5%	-8,3%	-0,5%	-2,1%	47,3%	27,9%	28,0%	
<b>Minorities</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	
<b>Net income (Ex adj.)</b>	<b>5,4</b>	<b>2,7</b>	<b>-3,3</b>	<b>-0,8</b>	<b>1,9</b>	<b>2,6</b>	<b>3,6</b>	
% of revenues	22%	9%	-13%	-3%	7%	8%	11%	
<b>Net margin</b>	<b>22%</b>	<b>9%</b>	<b>-13%</b>	<b>-3%</b>	<b>7%</b>	<b>3%</b>	<b>4%</b>	
# shares out (mln)	15,52	18,75	18,54	18,07	18,05	18,05	18,05	
<b>EPS</b>	<b>2,58</b>	<b>0,15</b>	<b>-0,18</b>	<b>-0,04</b>	<b>0,11</b>	<b>0,14</b>	<b>0,20</b>	

Quelle: DR. KALLIWODA | RESEARCH



### 3. CONVINCING TRILOGY-SOLUTION AND TRACEXPERT PLATFORM

Trilogy 5000 eliminates data inconsistencies by integrating all of the production, logistic and technical information into a single data base for further processing. Therefore Trilogy 5000 increases the productivity of production processes. Product end-quality is maximized, production errors are minimized and manufacturing resources are optimized. The following chart clarifies the process chain of the Trilogy 5000:



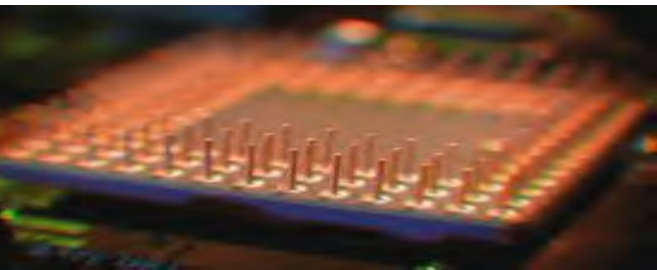




The TraceXpert product optimizes control processes and improves manufacturing efficiency in electronic production cycles for instance in the automobile-, telecommunications- and entertainment-electronics. In the following illustration an efficient control cycle in a production process becomes evident, which can be implemented by TraceXpert. For example the module „Automatic Program Selection“ is very relevant, since it selects the correct production program. This module reads the bar code of printed circuit board loads, which are to be processed. It contributes to the production flexibility, saves time and increases the profit of the manufacturer enterprises.



The module „Global Performance Monitor“ shows in clear prompting, in which places of a process chain the most frequent production errors develop and which kind of errors need to be considered. This module increases the product quality and saves likewise time. Allegedly simple modules like „Low Level Warning“ are important. They alarm the producer, which sources of supply are nearly empty. A machine stop can be prevented by this punctual information. Also this module leads inevitably to an increased productivity and time saving. Valor wins further key customers with this product.



## 4. CONTACT

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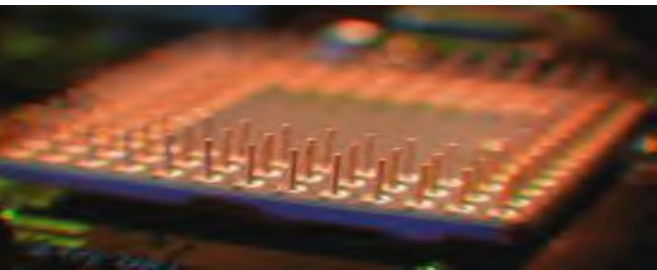
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